

Research Report

Group of Twenty

Measures to implement the G20 anti-corruption plan



MUNISH '13



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Forum	Group of Twenty
Issue:	Measures to implement the G20 anti-corruption plan
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Introduction

Corruption is seen as an obstacle to economic growth worldwide, that is why the G20 of 2013 will prioritize the discussion on the issue. Corruption can occur in both the public and private sector of a country's economy, though often the case entails collaboration between individuals in both sectors (with the aim of personal gain) which leads to corruption occurring. Corruption is seen to be a major cause of slowing, damaging and delaying economic development in a country. With the global financial crisis in 2008, corruption was unveiled in the sector. As a result of this increasing acknowledgement at the lack of transparency and accountability of a crisis stricken global financial system, the G20 set up an Anti-Corruption Working Group at the 2010 G20 summit in Toronto. This working group published a working plan at the next the summit of the G20 that same year, but it was not until 2012 that the Working Group efforts would be recognized. In combination with organizations such as the World Bank, IMF, OECD and others the G20 has discussed how to combat corruption across the board since 2010. An action plan for the economic year 2013-2014 has been created; it is though up to the individual member states to decide how to implement the action plan through new legislation, international agreements and regulations in their countries. This research report will highlight the underlying causes, consequences of corruption in both the public and private sector of a country; as well it will entail possible solutions and suggestions as to how to implement the Anti-Corruption Plan for the G20.



Key terms/ Definitions

Economic growth

Economic growth is an increase in the capacity of a economy in the production of goods and services. This means that all sectors of this economy are growing and benefitting. Economic growth can be measured in nominal terms, such as inflation, or in real terms which are adjusted for inflation. When comparing a country's economic growth to others Gross Domestic Product (GDP) and Gross National Product (GNP) per capita should be used.

Corruption

“ Wrongdoing on the part of an authority or powerful party through means that are illegitimate, immoral, or incompatible with ethical standards. Corruption often results from patronage and is associated with bribery.” (Businessdictionary, web. N.d. June 2013)

General overview

Corruption and its effects

Corruption in both the private and public sector can have serious implications on economic growth. It is defined in the following “Wrongdoing on the part of an authority or powerful party through means that are illegitimate, immoral, or incompatible with ethical standards. Corruption often results from patronage and is associated with bribery.” (Business dictionary, web. 2013). In basic terms, defying the system of rules/regulations for private gain. Reports conducted by non-governmental organisations (NGOs) on behalf of the G20 reveal the correlation between corruption and economic recession/stagnation.

Causes:

In countries where governmental economic regulations are looser on the transaction of money in the business cycle, officials in government might be persuaded to accept capital in form of bribes, as they have the discretion of applying the regulations. Conditions allow these government officials to consider the option of accepting bribes for economic private gain. Corruption after all cuts the amount of paperwork and time needed to get things done, it is a simple route. The following causes were determined out of an IMF report (IMF, report, web. August 2012).



- Trade restrictions: tariffs implemented by the government on foreign imports into the country can be influenced through corrupted methods. Should perhaps for example there be a limit on the amount of cars that are allowed to be imported into this country, the licences/ grants to import this product would become quite valuable, those who hold the licences might be likely to bribe officials who regulate the imports, for grants to allow them to import more. Another example of corruption results from home industry interests, for example local car manufacturing. Their foreign competition diminished through tariffs on their products, creates a semi-monopoly for the local industry. They lobby for the implementation on the tariffs on car imports to protect their products; some may even go as far as to pay certain government officials/politicians to keep these tariffs in place. To quickly summarize corruption is more likely to happen in a country where the government has strict control over trade.
- Low wages for civil servants: In a country where the wages of civil servants is low in comparison to that to those in the private sector, civil servants have the opportunity to receive money via illicit means in exchange for alternating some kind of governments policy to benefit the payer, to make ends meet for themselves. This tends to be more common when the chance of being caught (due to weak self regulations) is low.
- Weak or non-existent regulations on the relationship between money and politics. In democracies when an election year approaches the level of corruption reaches its peak. When industrialists or major business entrepreneurs invest millions, even billions in politician's campaign's in order to buy themselves a favour, should their candidate win and be able to ascend to governance of the country. This bribery buys them influence over the politicians and in-directly also buys them votes.
- Natural Recourse Endowments: Natural resources (oil, gas, coal) are commonly sold at higher prices than their original extraction cost; their sale is accustomed to government regulation. Corrupt officials can easily in this case turn a blind-eye to corrupt practises in exchange for financial or even political gain.
- Sociological factors: Societies/countries which may be ethnically diverse have a stronger correlation with corruption, in a society where family and friends played an emphasized role in people's lives, people are likely to do favours for those who they know.



Consequences/ Effects:

Despite a heated debate of the effects of corruption plays in a society, research conducted by many NGO's and other independent organizations has shown that it slows economic growth.

- **Loss of Revenue:** Where corruption takes form of tax avoidance and evasion by certain people/companies who manipulate their salaries/ incomes to find loopholes in the law in order to avoid paying taxes. It is a crucial loss of revenue for the country, and illicit practise.
- **Lower Quality of Government Services:** Where corruption is present in government, it may as a consequence lead to lower quality services/schemes from the government e.g. education, infrastructure, healthcare etc. This is because there is less money to spend on public projects as individuals have taken money out of government for themselves.
- **Distortion of Government Expenditure:** Corruption may distort government's expenditure, as certain individuals might prefer to invest taxpayer's money on projects out of which they can extort bribes, rather than spend it in the interest of public welfare.
- **Creates a less attractive environment for investment:** When businessmen are informed that an upfront bribe needs to be made to government/ company official, they view the extra payment as a type of tax. Investors are keener on avoiding any taxation at all on their investments than to be in the first place. A corrupt country, government, industry sector etc, is generally unattractive to outside investment, a key component for successful economic growth.
- **Less Aid Investments:** In particular relevance to developing countries, aid is given (often in the form of money) with the intention that it is spent on the cause for public interest. Should a part of this donation be taken out for personal gain, it draws off the investors from investing with aid. This type of corruption is best avoided in a developing country.

The G20 Anti-Corruption Action Plan 2013-2014

The G20 Anti- Corruption Action Plan was established at the G20 2010 summit in Toronto after leaders concluded that the lack of transparency in the global financial system was appalling. The Anti-Corruption Working Plan Group (ACWG) researched the issue, corruption, and its effects on economic growth and presented the results to the G20 in November of the same year. In 2012 at the G20 (G20, web.



2013) summit in Mexico the leaders decided that a renewed plan must be made and then discussed and implemented at the following G20 conference in 2013. The conclusion of 2012 G20 ACWG was that the solution to combatting corruption is to “closing the implementation and enforcement gap” (ACWG, report. Web. June 2012). The Plan is designed for the time period of 2013 and 2014; it gives a list of suggestions and aims for the G20 members to consider to combat corruption in their countries.

Summary of the plans proposed by the ACWG in a few points (*otherwise consult the link to download the ACWG 2013-2014 report in “Relevant Documents section of this research report for more information*):

- Strengthening of International Cooperation to assist anti-corruption efforts in the G20 and outside of it:
- The G20 countries that do not already have whistleblower protections will implement whistleblower protection rules, drawing on the principles developed in the Working Group,
- We commit to continue our efforts to deny entry and safe haven in our jurisdictions to corrupt officials and those who corrupt them.
- Promoting effective enforcement of legislation against domestic and foreign bribery is critical to tackling corruption.
- Recognizing the importance of our commitments to tackle foreign bribery, we will continue in our efforts to adopt and enforce laws and other measures against foreign bribery, which will include establishing the liability of legal persons.

Current Situation

In 2003 the United Nations drafted the “United Nations Convention against Corruption” (UNCAC). It was the first global anti-corruption instrument developed as a multilateral organization. The organization has over 140 members (UNCAC, Web. 2013), most of the members of the United Nations have ratified the treaty. To become a member, a state needs to implement anti-corruption laws, regulations and rules. The G20 as the organization of the world’s largest economies has, and still cooperating with the UNCAC to combat corruption in their countries. The treaty of the UNCAC (refer to the Relevant Documents Section) underlines the requirements governments must meet in order to combat corruption. In its 10 year existence the



group has overseen progress on the ground of combatting corruption, though the efforts has suffered a major setback when the global financial crisis occurred in 2008, revealing the unseen weak spots.

After the global financial crisis the G20 was established and set about making one of its aims to combat corruption. The Anti- Corruption Work Group was established in 2010. Since the appointment of the Anti-Corruption Work Group by the G20, member states have implemented some laws and regulations to tackle the issue of corruption in their countries. Though between the establishment of the workgroup and current time (2013) not a lot of progress has been made. Though some individual countries have committed to tackling the issue since it was first addressed in the first Action-plan in 2010 (G20 Anti-Corruption Action Plan, web report. 2010)

“ *Progress made by countries:*

- **China** amended its criminal code in February 2011 introducing foreign bribery as an offence. It has also hosted in cooperation with the OECD a technical seminar to discuss the establishment of a foreign bribery offence (October 2010) and has participated in several meetings of the WGB. A second seminar is currently in preparation that will focus on international cooperation against foreign bribery.
- **India** has ratified UNCAC on 1 May 2011. As part of its implementation package of UNCAC, it has introduced a bill in Parliament criminalizing foreign bribery in March 2011. As a member of the ADB/OECD Anti-Corruption Initiative for Asia and the Pacific, it hosted the 16th Steering Group meeting and 7th Regional Conference of the ADB/OECD Initiative co-organised with the OECD in September 2011.
- **The Republic of Korea** enacted a law protecting whistleblowers in the private sector which entered into force on 30 September 2011.
- **Russia**, enacted a new legislation, improving the public governance in counteracting corruption in criminalizing foreign bribery, including intermediation in bribery. Russia is now a full participant in the OECD WGB and is expected to adhere to the Convention soon.
- **Saudi Arabia** established in May 2011 a National Anti-corruption Commission to deal with all forms of financial and administrative corruption. It has been invited to attend the 2011 December plenary meetings of the OECD WGB.
- **In the EU**, an anti-corruption package was adopted by the European Commission in June 2011, through which an EU anti-corruption reporting



mechanism was set up, for periodic evaluation of EU Member States' efforts against corruption, including through further compliance with regional and international commitments.

- *The **United Kingdom's** Bribery Act, which modernized and strengthened its foreign bribery offence, entered into force on 1 July 2011. This followed the issuance of the official guidance for the private sector on procedures that commercial organisations can put in place to prevent bribery on their behalf.*
- *The **United States'** Dodd-Frank Act (January 2010) requires resource extraction issuers to disclose information relating to payments made by the issuer, or by a subsidiary, to a foreign government for the purpose of the commercial development of oil, natural gas, or minerals, aimed at improving the effectiveness of transparency in specific areas and established whistleblower protection in the private sector.”*

Suggestions/Possible Solutions

The G20 is advised by the ACWG on how to combat the issue of corruption. These suggestions are useful to the members of the G20 to indicate how they will be able to create measures to implement the Action-Plan.

- Effectively implement international anti-corruption conventions, cooperation with the UNCAC and OECD Anti-Bribery convention is advised to achieve this
- Enforce international anti-bribery laws
- Promote transparency, integrity, prevention and accountability of corruption in the public sector and private sector
- Introduce anti money laundering actions and have continued support for asset recovery programs (InterAction.org, n.d. web. 2013)
- Introduce whistleblower protection legislation in all member states

Major Parties involved and their views

Opinion amongst the member states of the G20 is mostly in favour of pursuing anti-corruption policies. Though all, if not most, of the G20 members have committed to the points, findings, and possible solutions suggested by the following organizations, and have vowed to cooperate with them.



Organization for Economic Co-operation and Development (OECD)

The OECD has been disseminating information about the consequence that corruption has on economic growth in countries around the world. Not only does the organization want to raise awareness of the issue, it formed a Anti-Bribery Convention in 1997 (which has been updated over the years) to sign countries to commit to eradicating corruption worldwide. (OECD Anti-Bribery, report. Web, Sept 2011. June 2013).

The G20 Anti-Corruption Work Group (ACWG)

The G20's own independent body to address this issue, devised plans for the G20 in 2010 and in 2012 regarding consecutive solutions to eradicating corruption worldwide, as it is harmful to economic growth. (ACWG 2013-2014, report web. Sept 2012. June 2013)

United Nations Convention Against Corruption

The United Nations Convention Against Corruption is a UN Organization (UNO) created specifically to address the issue of corruption worldwide. Devised a treaty in 2003, more than 140 member states of the UN have signed this treaty. The treaty states an outline that countries that sign the treaty will commit to eradicating corruption in the public and private sectors of their country.

Relevant Documents

- -The G20 Anti Corruption Work Group Plan for 2013-2014
www.g20.org/load/781360452
- OECD Anti-Bribery convention: <http://www.oecd.org/daf/anti-bribery/oecdantibriberyconvention.htm>
- G20 Anti-Corruption Work Group Plan 2010 (original):
http://www.g20civil.com/documents/Final_G20_Anti-corruption_Working_Group_progress_Report.pdf
- IMF: "Why Worry About Corruption?" :
<http://www.imf.org/EXTERNAL/PUBS/FT/ISSUES6/>
- United Nations Convention Against Corruption (in text form):
<http://www.unodc.org/unodc/en/treaties/CAC/>



- Co-Chairs of the ACWG on behalf of Russia and Canada, Suggestions on how to implement the G20 ACWG Plan: http://blog.transparency.org/wp-content/uploads/2012/12/CSO-recommendations-in-reaction-to-new-G20-ACAP_10-dec-20121.pdf

Timeline of Events

This timeline entails events in the Anti-Corruption effort movement over the last decade.

Date	Description
21 st	
21 st January 2002- 1 st October 2003	The United Nations Covention Against Corruption is developed in seven Ad-Hoc committee sessions
September 2008	The Global Financial Crisis starts with the collapse of the investment bank Lehman Brothers
January 2010	The United States of America enacts the Dodd-Frank Act, requiring transactions between individuals transparency in the private sector. It also covered a clause which gave whistleblowers in the private sector legal protection
June 2010	The G20 Summit in Toronto decides that a anti-corruption effort must be established in all countries to address the issue, they established the ACWG to



research corruption

November 2010

The G20 meets again in Seoul, Korea, the ACWG presents a report on corruption and the first action plan

30 September 2011

The Republic of Korea enacts a law that protects whistleblowers in the private sector

2011

India ratifies the UNCAC, promising commitment to the addressing the issue

September 2012

The G20 Summit in Mexico extends the mandate of the ACWG to develop a new action plan for the years 2013 and 2014

September 2012

The G20 summit in St. Petersburg will review the ACWG Plan for 2013-2014 and assess which measures to implement to enact it



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